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SUBJECT: POLITICAL AND ECONOMIC DEVELOPMENT IN AZERBAIJAN'S SOUTHERN REGIONS

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¶1. (SBU) SUMMARY: During an October 30 - November 1 trip to Azerbaijan's southern regions, the Ambassador met with a broad range of contacts, including representatives from local government, civil society, and a variety of businesses. The southern regions are experiencing some growth and investment, including construction of a new international airport, but business representatives complained that inefficiencies in the agriculture and other non-oil sectors hampered further growth. One local government representative and Lankaran's Member of Parliament (MP) also expressed concern about the possible negative effects of WTO accession. Although civil society is quite active in Lankaran, many members of different NGOs shared their frustration with being unable to register with the Ministry of Justice. The Head of Lankaran's local government and Lankaran's MP told the Ambassador that the Nagorno-Karabakh conflict remains the country's greatest concern, and said that the U.S. is the only Minsk Group Co-Chair country with which Azerbaijan can have serious discussions. The three-day trip garnered much positive press coverage, conveying the message that the U.S. is actively engaged in building democracy in Azerbaijan through political and economic reform. END SUMMARY

¶2. (SBU) In an October 30 - November 1 trip, the Ambassador visited the city of Lankaran, and stopped in villages in the regions of Salyan, Masalli and Jalilabad. She met with leaders from local government, a wide range of businesses, and civil society; the representative of the Caucasus Muslim Board in the Southern Region; the MP representing Lankaran; students from Lankaran State University; and Peace Corps volunteers. The Ambassador also visited a madrasa, two mosques, and a USG-funded anti-corruption project, and participated in the openings of several USG-funded projects including a library information center, an ODC humanitarian project, and USAID community development and agriculture projects.

THE VIEW FROM LOCAL GOVERNMENT

¶3. (SBU) On October 30, the Head of the Salyan local government, the Executive Commission (ExComm), Rasim Bashirov, briefed the Ambassador on Salyan's economic development. According to Bashirov, in the past two years GDP has increased by 37 percent, while wages have doubled, and the construction of a cotton refinery, a textiles plant, a cannery, and a wheat mill have brought thousands of jobs to the region. However, Bashirov said that many of these jobs remain vacant, because a large portion of the work force

travels to Baku to find employment. The USD one million that President Aliyev allocated to develop Salyan's local economy, according to Bashirov, has supported the construction of an Olympic sports complex, the renovation of several schools, the construction of a reservoir, and much-needed repairs to the sewage system. Bashirov told the Ambassador that the ExComm was developing proposals for businessmen, particularly for the development of the non-oil sector, and said that Chinese investors had recently visited and were interested in private development. He said that the region's greatest need was for equipment and technology, which the Ambassador said she would mention to U.S. companies.

¶14. (SBU) In an October 31 meeting with Suleyman Mikayilov, the Head of the Lankaran ExComm, the Ambassador highlighted the intertwined priorities in the bilateral relationship: security, energy, and democracy. She emphasized the benefits that WTO membership could bring to Azerbaijan, and said that membership would be a good signal for U.S. companies to invest in Azerbaijan. Mikayilov briefed the Ambassador on Lankaran's economic situation. He said that an international airport is currently under construction, which should be open in 2007, will increase Azerbaijan's export capabilities and also boost regional tourism. Mikayilov said that Lankaran's biggest export partner is Russia, and that China is building a bottling plant in the region. Although 300,000 new jobs have been created in the past year, Mikayilov said that Lankaran's biggest problem remained that of unemployment, currently between 15 and 20 percent. In addition, Mikayilov said that the region still faces problems with electricity supply, which currently works an average of 18 to 20 hours per day. Mikayilov told the Ambassador that Azerbaijan's heavy refugee burden is holding back development, and said that out of the three Minsk Group Co-Chair countries, the U.S. is closest to Azerbaijan. The Ambassador assured Mikayilov that the U.S. is fully engaged in the Minsk group

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peace process.

BUSINESS AND ECONOMIC DEVELOPMENT

¶15. (SBU) In a roundtable discussion with business representatives from industries including food processing, furniture manufacture, leasing and bank services, the Ambassador spoke of the importance of developing Azerbaijan's non-oil sector. She highlighted the benefits of WTO accession, and assured the group that WTO rules do not prohibit agriculture support. Several representatives from the food processing industry told the Ambassador that the lack of produce storage and processing facilities is the biggest problem facing regional agricultural development. They also said that the lack of technology and expertise keeps farmers from reaching their maximum level of efficiency. One representative from a furniture manufacturing firm complained that the international community is too focused on agriculture, and ignores the potential in other segments of the non-oil sector. He said that Lankaran has the natural resources to support a strong furniture industry, but that the resources are not being used productively. One representative from the banking sector said that the region could benefit from a greater availability of micro-financing, and that the majority of Lankaran's foreign financing is from Germany.

POLITICAL DEVELOPMENT

¶16. (SBU) In a dinner with the Head of the Lankaran ExComm Suleyman Mikayilov, independent MP Rufat Guliyev, and a group of Guliyev's constituents, the Ambassador highlighted the potential benefits of WTO accession, such as attracting more foreign investors. Mikayilov told the Ambassador that Lankaran's residents want WTO membership, but that because of the lack of technology, the country is not yet ready.

According to Mikayilov, there is no need to rush to membership because Azerbaijan already has unlimited access to the European market. He said that during a three-day conference held in August to examine potential WTO membership, participants agreed that for Azerbaijan, the prospect for WTO membership is realistically two to three years away. Guliyev brought up the Minsk Group negotiations, saying that the Nagorno-Karabakh conflict remains the biggest problem in Azerbaijan. Referring to the French National Assembly's recent decision to criminalize denial of the "Armenian genocide," Guliyev said that of the three Co-Chair countries, the U.S. is the only country with which Azerbaijan can have sincere discussions. One of Guliyev's constituents told the Ambassador that if the occupied territories were returned, Azerbaijan would prove to be the "most democratic, most civil" country. The Ambassador emphasized that the U.S. is committed to finding a solution to the conflict.

¶ 17. (SBU) In a roundtable discussion with members of civil society, the Ambassador highlighted civil society's important role in democratic reform. Representatives of NGOs spanning a wide range of work - from human rights protection to legal assistance - discussed the challenges of creating an engaged citizenry in Lankaran. The representatives agreed that the biggest problem in the region is the population's apathy toward civic engagement, resulting in a small volunteer pool for local NGOs. According to several of the participants, although Lankaran has more than 50 functioning NGOs, only a handful of them have been successful in registering their organizations with the Ministry of Justice. In addition, many of the representatives said that their NGOs lack the resources necessary to function, such as office space and equipment.

¶ 18. (SBU) The Ambassador met with Imam Haji Saadi, the Representative of the Caucasus Muslim Board in the Southern Region, with whom she visited the local madrasa and two of the city's mosques. (NOTE: The madrasa which the Ambassador visited will soon participate in an Embassy-funded public diplomacy micro-scholarship program focused on teaching English to high-school age students from poor, religious, and conservative backgrounds.) The Ambassador praised Azerbaijan's religious tolerance, saying that it sets an example for both the region and the world. Imam Haji Saadi told the Ambassador that there are about 80 mosques in Lankaran, each with its own Imam. He said that the main principles of Islam are tolerance and morality, and that Azerbaijan's religious community values inter-religious dialogue. According to the Imam, the best solution to

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conflicts between religions is a proper education on religious issues. He also said that although all religions are beautiful, Wahabbism is an "enemy to humanity," contrary to the Islamic tradition of peace.

THE U.S MESSAGE AND MEDIA REACTION

¶ 19. (SBU) The Ambassador's participation in the openings of several USG-funded projects, including a library information center, an Office of Defense Cooperation humanitarian project, USAID community development and agriculture projects, and her visit to a USG-funded anti-corruption project received wide, positive media coverage. Reflecting current concerns about a deterioration in media freedom in Azerbaijan, most widely covered was the Ambassador's statement that the U.S. strongly supports a free, independent, objective and responsible media. The main themes that emerged from the media coverage were that the U.S. is concerned about prospects for people in Azerbaijan's regions and is working to promote regional development; that the U.S. respects Islam; and that the U.S. attaches great importance to media freedom. Throughout her meetings, the Ambassador promoted democratic values, praised Azerbaijan's success as a religiously tolerant state, and conveyed the need for

political and economic reform.

COMMENT

¶10. (SBU) Lankaran - just dozens of miles from the Iranian border - is a relatively dynamic region from both a political and economic perspective. Much of its investment has been spurred by foreign investment in the region's on-shore oil reserves, and the planned international airport is sure to draw still more investment. Politically, the GOAJ is keeping a wary eye on influence from neighboring Iran, which could explain - although not excuse - some of the difficulties NGOs working in the area have experienced. We will continue to urge the GOAJ to allow NGOs to register within the parameters of the law, and will continue to explore new ways of reaching out to Lankaran's religious community, such as the PD micro-scholarship program.

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